

Message Text

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FOR AMBASSADOR STOESSEL

E.O. 11652: N/A

TAGS: GW, MASS

SUBJECT: NATO GUIDED MISSILE PATROL HYDROFOIL (NATO PHM)
PROGRAM

1. SECRETARY OF DEFENSE BROWN WOULD APPRECIATE YOUR
ARRANGING MEETING WITH DEFENSE MINISTER GEORG LEBER
AT YOUR/HIS EARLIEST CONVENIENCE AND MAKING THE
FOLLOWING POINTS TO HIM ORALLY CONCERNING THE NATO PHM
PROGRAM:

A. AS YOU KNOW, THE NEW ADMINISTRATION IS EXAMINING
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CLOSELY PLANNED DEFENSE EXPENDITURES AND WAYS AND MEANS
TO STRENGTHEN THE UNITED STATES NATO DEFENSE
COMMITMENTS AND CAPABILITIES.

B. IN THIS CONNECTION, WE ARE TAKING A HARD LOOK AT
THE NATO PHM PROGRAM AND ARE CONSIDERING WHETHER TO
CONTINUE THE PROGRAM, TO TERMINATE IT, OR, ALTERNATIVELY,

TO ENTER A NEW ONE-YEAR DETAILED DESIGN PHASE IN A PROGRAM WHOSE OBJECTIVE WOULD BE TO PRODUCE A SHIP, WITH SOME REDUCTION IN SIZE AND POSSIBLY IN PERFORMANCE, FOR A UNIT PRODUCTION COST IN THE RANGE OF \$25 MILLION IN FY 78 DOLLARS.

C. WE HAVE NOT YET DECIDED ON HOW WE WILL PROCEED IN THIS PROGRAM AND WOULD VERY MUCH LIKE TO HAVE YOUR (LEBER'S) VIEWS BEFORE WE TAKE OUR FINAL DECISION.

D. WE WOULD APPRECIATE LEARNING, THEREFORE, YOUR PERSONAL ASSESSMENT OF THE IMPORTANCE OF THE NATO PHM PROGRAM TO THE FRG AND YOUR VIEW OF ITS IMPORTANCE TO OUR COLLECTIVE ALLIANCE DEFENSE EFFORT.

2. THE FOLLOWING INFORMATION CONCERNING THE NATO PHM PROGRAM IS PROVIDED FOR BACKGROUND AND MAY BE USEFUL IN YOUR DISCUSSION WITH LEBER:

A. THE US HAS TAKEN THE POSITION IN NATO THAT SEVERAL OF ITS ALLIES SHOULD EMPHASIZE THE EMPLOYMENT OF PATROL BOATS IN THEIR NAVAL FORCES.

B. IN 1971, NATO COMMANDERS STATED THE NEED FOR A FAST, REASONABLY INEXPENSIVE SHIP CAPABLE OF ANTI-SURFACE SHIP ATTACK, BARRIER AND SURVEILLANCE OPERATIONS TO COUNTER THE NEW AND HIGHLY CAPABLE SOVIET SURFACE FLEET.

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C. IN 1972, THE US, THE FRG AND ITALY SIGNED A MEMORANDUM OF UNDERSTANDING (MOU) WHICH PROVIDED A CHARTER FOR THE DESIGN AND DEVELOPMENT OF THE NATO PHM AND WHICH ENVISIONED FOLLOW-ON PRODUCTION OF THE SHIP.

D. ALL THREE NATIONS CONTRIBUTED TO THE DESIGN AND DEVELOPMENT PHASE. TO DATE, THE US HAS INVESTED \$103.3 MILLION, THE FRG \$20.4 MILLION, AND ITALY \$13.0 MILLION.

E. NONE OF THE NATIONS HAS YET COMMITTED ITSELF TO THE PRODUCTION PHASE, ALTHOUGH IT IS REASONABLE TO ASSUME THAT THE FRG EXPECTS THE US TO ENTER PRODUCTION, GIVEN THAT: (1) THE US LAUNCHED THE LEAD SHIP, PHM-1, IN NOVEMBER 1974; (2) THE TECHNICAL AND OPERATIONAL EVALUATION OF PHM-1 WAS SUCCESSFULLY COMPLETED; (3) CONGRESS APPROPRIATED FUNDS TO BEGIN SERIES PRODUCTION OF FOLLOW-ON SHIPS; AND (4) THE

US AND THE FRG, IN SEPTEMBER 1976, NEGOTIATED A PRODUCTION SUPPLEMENT TO THE MOU WHICH ESTABLISHED COST-SHARING RATIOS AND PROCEDURES FOR MANAGING THE PROGRAM.

F. THE US ORIGINALLY PLANNED TO PROCURE 28 SHIPS, SINCE

REDUCED TO SIX (PHM-1 PLUS FIVE); THE FRG 10; AND ITALY AN UNDETERMINED NUMBER, SINCE DETERMINED TO BE NONE, BASED ON ITALY'S DECISION NOT TO PROCEED TO THE PRODUCTION PHASE.

G. ADDITIONAL NON-RECURRING (START UP) COSTS ARE ESTIMATED TO BE \$34 MILLION, HALF OF WHICH WILL BE BORNE BY THE FRG IF IT DECIDES TO PROCURE THE PHM.

H. WE ESTIMATE, NOW, THAT THE SAILAWAY UNIT COST LIMITED OFFICIAL USE

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FOR 15 SHIPS (10 FRG AND FIVE US) WILL BE \$55 MILLION

IN THEN-YEAR DOLLARS (AS COMPARED WITH AN ESTIMATED UNIT COST OF \$18 MILLION PER PHM WHEN THE US PLANNED TO PROCURE 28 SHIPS). UNIT COSTS WOULD BE REDUCED IF OTHER NATIONS (E.G., ITALY, GREECE, TURKEY, ISRAEL) SHOULD OPT TO PROCURE THE NATO PHM.

I. OUR UNDERSTANDING IS THAT THE FRG WILL MAKE ITS PROCUREMENT DECISION IN APRIL 1977. LATEST SOUNDINGS INDICATE THAT THE DECISION COULD GO EITHER WAY. (IN ITS RESPONSE TO THE 1976 NATO DEFENSE PLANNING QUESTIONNAIRE, THE FRG NOTED THAT, GIVEN THE HIGH UNIT COST PROJECTED FOR THE PHM, CONSIDERATION WAS BEING GIVEN TO PROCURING AN ADDITIONAL SERIES OF 10 TYPE-143 FBPGS IN LIEU OF THE PHM.)

J. WE ARE CONCERNED THAT A UNILATERAL US DECISION NOT TO PRODUCE THE NATO PHM, ALTHOUGH CLEARLY OUR RIGHT IN ACCORDANCE WITH THE MOU, COULD BE INTERPRETED BY THE EUROPEANS, AND PARTICULARLY BY THE GERMANS, AS A LESSENING OF US SUPPORT FOR COOPERATIVE PROGRAMS IN GENERAL AND AS A RELINQUISHING OF US LEADERSHIP IN THIS PROGRAM IN PARTICULAR.

K. NEVERTHELESS, THE OVERALL COST EFFECTIVENESS OF THE NATO PHM IS BEING QUESTIONED HERE (AND, IF SOUNDINGS ARE VALID, ALSO IN THE FRG), AND THE PROGRAM IS ONE OF SEVERAL POSSIBLE CANDIDATES WHOSE TERMINATION OR MODIFICATION COULD RESULT IN CONSIDERABLE DEFENSE SAVINGS.

L. AS AN ALTERNATIVE, WE ARE CONSIDERING AN OPTIOM
WHEREBY, RATHER THAN PRODUCING THE CURRENT DESIGN,
THE LEAD SHIP (PHM-1) WOULD BE TREATED AS A FEASIBILITY
DEMONSTRATION MODEL AND ITS ORIGINAL DESIGN
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REWORKED OVER A ONE-YEAR PERIOD. THE OBJECTIVES OF
THE ALTERNATIVE PROGRAM WOULD BE TO ACHIEVE A
REDESIGNED SHIP, WITH SOME REDUCTION IN SIZE AND

POSSIBLY IN PERFORMANCE, WHICH COULD BE PRODUCED
IN THE UNIT-COST RANGE OF FROM \$25 TO \$30 MILLION
IN FY 78 DOLLARS, WHILE AT THE SAME TIME CONTINUING THE
NATO PHM PROGRAM AND DEMONSTRATING TO OUR ALLIES
OUR CONTINUED INTEREST IN THIS AND OTHER COOPERATIVE
PROGRAMS.

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